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Trade Package Passes Congress During Eleventh Hour

During the closing hours before adjourning to campaign for re-election, legislators rushed through a conference report on a comprehensive package of trade measures that is less protectionist than the bills originally passed by the House and Senate. On October 9, the House overwhelmingly approved the conference report by a vote of 386-to-1 (Illinois Republican Philip Crane cast the lone objection), and the Senate followed suit, approving the package by voice vote. It now goes to President Reagan for his signature.

Over the past two weeks, United States Trade Representative William E. Brock worked relentlessly with key trade proponents to fashion an omnibus trade package that included what the White House considered to be priority items -- an extension of the Generalized System of Preferences (GSP); authority for free trade between the United States and Israel; and the Danforth reciprocity bill -- and weakened certain sectoral measures that would prompt foreign retaliation.

In the case of the reciprocity bill, championed by Sen. John C. Danforth (R, Mo.), chairman of the Senate Finance Subcommittee on International Trade, this action finally closes the book on over two years of congressional debate.

• Japanese policies have benefited American industries to the extent that they have encouraged U.S. manufacturers to focus additional attention on quality control, innovation and export markets.

The Japanese representatives made the following points:

• "Buy America" or "Buy State" policies discriminate against foreign producers. Trade remedies enacted by Congress often shield American industry from legitimate international competition, while extraterritorial applications of American laws hinder growth in international trade. Extensive federal and state support in research and development -- far more than is available to business in many other countries -- help strengthen U.S. competitiveness.

• Many tax policies adopted by federal and local governments, including accelerated cost recovery systems and investment tax credits, are far more generous than those in Japan and thus benefit the United States internationally. Application of the worldwide unitary tax method by many American states is a distinct disadvantage to overseas competitors.

• The rising bilateral trade deficit is more the result of an overvalued dollar, high American interest rates and domestic economic conditions than of Japanese government practices.

The industrial policy study does not endorse guidelines or proposals for either government, but does support regular consultations to prevent the adoption of policies that could prove counter to accepted international trade practices.

The Japan-U.S. Businessmen's Conference is an annual gathering of two business-oriented groups: the Washington-based Advisory Council on Japan-U.S. Economic Relations, and the Japan Economic Council of Tokyo. Approximately 70 senior business leaders belong to the conference, now in its twenty-first year. The chairmen are Edson Spencer, chairman of the board of Honeywell, Inc., and Norishige Hasegawa, chairman of Sumitomo Chemical Co., Ltd.

Michael Chinworth

Foreign Direct Investment in Japan Continues Upswing

Foreign firms continue to build a presence in Japan's market, according to a survey of inward foreign direct investment released by the Ministry of International Trade and Industry (MITI). The survey, which reports on the fiscal year ending March 31, 1983, covers companies with a foreign stake of over 50 percent. The following data are based on 1,052 responses out of 2,212 questionnaires mailed to qualified companies.

Table 1 presents statistics on foreign-affiliated firms in Japan. Sales affiliates remain the most numerous at 51.1 percent, continuing a trend in evidence since FY 1979, when they accounted for 44.1 percent. Services firms held steady at around 10 percent, but the share held by manufacturing ventures fell to 34.7 percent from the 42.8 percent level in FY 1979. The United States still accounts for the lion's share of companies responding to the survey with

a 46.6 percent share, down from 51 percent five years ago. European affiliates hold second place with 36.2 percent, a solid gain over FY 1979's 32.5 percent share and ahead of the Asian presence -- 12.7 percent -- up just 1.8 percentage points from the earlier period.

The impact of liberalized investment regulations is increasingly clear; 68 percent of the respondents represented firms with a majority foreign equity position, in contrast to 63 percent in FY 1979. Approximately three-fourths of the affiliates had assets of less than Y100 million ($408,000), classifying them as small- and medium-sized businesses, unchanged from five years ago. The employment impact of these firms was also relatively small since 80 percent of the companies had under 100 workers.

Foreign subsidiaries responding to the survey rang up sales of Y13.5 trillion ($55 billion), an average of Y12.9 billion ($52.6 million) each. This was down sharply (34.4 percent) from FY 1981's showing of Y18.1 trillion, primarily because of the recession. Foreign firms accounted for 1.5 percent of all sales in Japan and for 2.8 percent of sales of manufactured goods. Foreign subsidiaries are clearly a conduit for imports: the average share of sales attributable to imports was 49.3 percent. For certain industries, including petroleum products and manufactured goods, the share was as much as 75.7 percent. The subsidiaries' share of exports was much smaller, averaging just 6.4 percent. These companies ran a trade deficit, with imports exceeding exports by Y4.5 trillion ($18.4 billion).

Foreign companies also invested a larger proportion of their revenues than did their Japanese competitors. The foreign-affiliated enterprise put 2.1 percent of sales into new plant and equipment, while the domestic average was 1.3 percent. The difference was even more striking in manufacturing, where domestic firms earmarked 1.9 percent of sales for capital spending and foreign firms 3.1 percent.

Foreign affiliates were more profitable than domestic companies despite the sales decline, with an average pre-tax recurring profits-to-sales ratio of 2.3 percent, higher than the 1.8 percent average for all Japanese firms. In yen terms, pre-tax profits hit Y314.3 billion ($1.28 billion), averaging out to Y140 million ($571,000) per company. After-tax profits were also higher, with the domestic average coming in at 0.8 percent and foreign firms at 1.1 percent. MITI spokesmen attributed the success of foreign companies to thorough market research, popular brand names and a concentration in fast-growing markets.

MITI also released a survey of foreign affiliates of Japanese companies that revealed some interesting trends. In fiscal 1982, the 1,469 companies which responded (3,264 were polled) had aggregate sales of Y47.9 trillion ($196 billion) and capital of Y4.2 trillion ($17 billion) and employed 881,000 people in overseas operations. Table 2, which summarizes these patterns, shows an increased Japanese manufacturing presence in advanced countries. Statistics for all three categories show consistent increases. Japanese manufacturers are clearly responding to protectionism by increasing their foreign production base.

Table 1: Foreign Affiliates in Japan, FY 1982

(number of firms and percentage of total)

1a. Industry Distribution

Food Products	21	2.0%	Nonelectric Machinery	71	6.8%
Textiles	6	0.6	Electric Machinery	49	4.7
Wood Products	4	0.4	Transportation Equipment	14	1.3
Pulp and Paper	2	0.2	Precision Machinery	22	2.1
Publishing and Printing	10	1.0	Other Manufacturing	26	2.5
Chemicals	77	7.4	Commerce	534	51.1
Pharmaceuticals	26	2.4	Financial Services	11	1.1
Oil and Coal	7	0.7	Real Estate	12	1.1
Rubber Products	2	0.2	Transportation	8	0.8
Cement and Glass	10	10.0	Services	110	10.5
Nonferrous Metals	9	1.0	Construction	4	0.3
Fabricated Metal Products	6	0.6	Agricultural Products	3	0.3

1b. Country Distribution

United States	486	46.6%
Europe	378	36.2
West Germany	84	8.1
Switzerland	67	6.4
Britain	60	5.8
France	45	4.3
Other	122	11.6
Asia	132	12.7
Hong Kong	53	5.1
Other	69	7.6
Other	48	4.6

1c. Degree of Foreign Ownership

50 percent	334	32.0%
51 to 99 percent	209	20.0
100 percent	501	48.0

Table 2: Foreign Affiliates of Japanese Companies, FY 1980-1982

(in billions of yen or thousands of employees; percentage of total)

Fiscal Year	Total		Developed Countries		Of which: Manufacturing		Developing Countries		Of which: Manufacturing	
Capital										
1980	Y2,215	100.0%	Y973	43.9%	Y303	13.7%	Y1,242	56.1%	Y1,049	47.4%
1981	2,833	100.0	1,451	51.2	497	17.5	1,383	48.8	1,157	40.8
1982	4,153	100.0	2,208	53.2	920	22.1	1,945	46.8	1,572	37.9
Sales										
1980	Y35,289	100.0%	Y25,684	72.8%	Y2,268	6.4%	Y9,605	27.2%	Y3,796	10.8%
1981	47,335	100.0	32,730	69.1	3,934	8.3	14,605	30.9	5,505	11.6
1982	47,936	100.0	34,961	72.9	4,718	9.8	12,975	27.1	4,838	10.1
Employees										
1980	715	100.0%	144	20.1%	89	12.4%	572	80.0%	516	72.2%
1981	770	100.0	177	23.0	109	14.2	592	76.9	529	68.7
1982	881	100.0	234	26.6	143	16.2	647	73.4	554	62.9

Source: Ministry of International Trade and Industry

MITI's surveys are useful as a general indication of inward and outward foreign investment trends but cannot be called definitive because of the size of the samples.

Jon Choy

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The views expressed in this report are those of the authors and do not necessarily represent those of the Japan Economic Institute.

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